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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION FOR)	CASE NO. AVU-E-13-04
AUTHORITY TO AMEND ITS ANNUAL)	
POWER COST ADJUSTMENT (PCA))	COMMENTS OF THE
RATES.)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of Record, Donald L. Howell II, Deputy Attorney General, submits the following comments in response to Order No. 32873 issued on August 13, 2013.

BACKGROUND

On July 31, 2013, Avista Corporation dba Avista Utilities ("Avista" or "Company") filed its annual Power Cost Adjustment ("PCA") requesting a Commission Order approving the rebate of below normal power costs deferred for the period of July 1, 2012 through June 30, 2013. The Company's Application proposes to increase the customer credit to 0.152¢ per kilowatt-hour effective October 1, 2013.

Avista's PCA mechanism is used to track changes in revenues and costs associated with variations in hydroelectric generation, power market purchases and sales, thermal fuel costs, changes in power contract revenues and expenses, and other miscellaneous items.

Avista lists the reasons for the decrease in power supply expense as:

- 1) Above normal hydro conditions,
- 2) Lower natural gas prices,
- 3) Lower electric market prices,
- 4) Lower fuel costs at Colstrip, and
- 5) Lower fuel costs at Kettle Falls.

The Company's Application identifies the power cost deferrals, including interest, for the July 1, 2012 through June 30, 2013 deferral period as:

Deferrals (July 2012-June 2013)	\$(3,875,180)
Interest	(22,309)
PCA Deferral as of June 30, 2013	<u>\$(3,897,489)</u>

Avista states that the proposed rebate is designed to pass through the deferral amount for the period July 1, 2012 through June 30, 2013, as well as the unrecovered balance related to the July 1, 2011 through June 30, 2012 deferral period, and estimated interest through September 30, 2014. The proposed 0.152¢/kWh PCA credit will replace an existing 0.090¢/kWh credit, a credit increase of 0.062¢/kWh.

The Company-proposed overall average rate decrease of 0.83% would vary by rate schedule as shown below.

Customer Group (Schedule)	Percentage Decrease
Residential (Schedule 1)	-0.74%
General Service (Schedules 11, 12)	-0.66%
Large General Service (Schedules 21, 22)	-0.82%
Extra Large General Service (Schedule 25)	-1.21%
Clearwater (Schedule 25P)	-1.37%
Pumping Service (Schedules 31, 32)	-0.69%
Street and Area Lights (Schedules 41-49)	-0.25%
Average	-0.83%

STAFF REVIEW

Audit Results

Staff reviewed and audited the amounts included in the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2012 through June 2013. Staff examined a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), Combustion Turbine Fuel account (FERC 547), and the Power Sales Revenue account (FERC 447). Based on its review of these transactions, Staff concludes that the various power cost transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds Avista's booked amounts and other calculations to be correct.

Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the abnormal power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ending June 30, 2013. A component of the net deferral is the net change in Power Supply Costs (FERC Accounts 555, 501, 547, and 447). Along with the costs of serving load using Company-owned resources, these PCA accounts also include additional power purchase costs when market prices are lower than generation costs. Generation costs associated with off-system sales are offset by the revenue from those sales. The proposed deferral amount, (\$3,897,489), consists of the following items. An explanation of each item is provided below.

1. FERC Account 555 - Purchased Power	\$49,633,797
2. FERC Account 501 - Thermal Fuel	(1,033,536)
3. FERC Account 547 - CT Fuel	(4,834,966)
4. FERC Account 447 - Sales for Resale	(40,058,895)
5. All Clearwater Revenues and Expenses	(5,637,769)
6. Resource Optimization - Gain on Natural Gas Resold	(955,643)
7. Idaho Retail Revenue Adjustment	(841,960)
8. Net Transmission Revenue and Expense	(146,208)
9. Interest during deferral period	(22,309)
10. Total	<u>(\$3,897,489)</u>

1. FERC Account 555 - Purchased Power. Purchased Power costs reflect 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. This account also includes the expenses related to the Palouse Wind project per Order No. 32371,

Case No. AVU-E-11-01. In the review period, the Company incurred more purchased power costs than are included in base rates. The positive amount represents a cost to customers.

2. FERC Account 501 - Thermal Fuel. Thermal Fuel, primarily coal, is used to produce electricity. The amount is 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. During the review period, the Company incurred lower coal costs than are currently included in base rates. The negative amount represents a benefit to customers.

3. FERC Account 547 - CT Fuel. Combustion Turbine (or CT) Fuel is natural gas burned in the Company's gas-fired generators. This amount represents 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for gas generator fuel compared to the amount included in normalized base rates. In the review period, the Company incurred less natural gas cost than is currently included in base rates. The negative amount represents a benefit to customers.

4. FERC Account 447 - Sales for Resale. Sales for Resale are long-term and short-term off-system sales. The negative amount represents 90% of the Idaho jurisdictional share of the increase in off-system sales revenues above the amounts included in base rates. This negative amount represents an increase in sales for resale revenues, a decrease in costs during the review period, and is a benefit to customers.

5. All Clearwater Revenues and Expenses. The Clearwater revenue and expense components are a direct assignment to Idaho. They are based on the difference in Clearwater costs and revenues (for its Lewiston facility) relative to the normalized Clearwater costs and revenues established in the Company's last general rate case. The negative net amount indicates that, during the review period, the cost of serving Clearwater was less than the amount included in base rates. This negative amount is a benefit to Idaho customers.

6. Resource Optimization - Gain on Natural Gas Resold. Resource Optimization results in a cost or benefit to customers when natural gas purchased in advance for use in generating plants is later sold because it is more cost effective to sell the gas and purchase electricity than it is to generate electricity with the gas. Ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas transactions resulting from optimizing Company resources is included in the PCA. The gain during the review period, shown as a negative amount, is a benefit to Idaho customers.

Staff notes that this line item only shows one side of the transaction when the Company utilizes its power plants for economic dispatch, and should not be looked at independently from the entire optimization of Company resources. When looked at in its entirety, Resource Optimization is

a benefit to customers, even though this PCA line item amount may be a cost to customers, rather than a benefit.

Staff has verified that when the Company initially purchased the gas, the cost of producing electricity at Avista's natural gas plants (primarily the Coyote Springs and Lancaster facilities) was less expensive than purchasing electricity on the open market to meet its native load. Furthermore, Staff has verified that when the Company resold the gas and purchased electricity to meet native load, the resale of the gas and corresponding electricity purchased was the least expensive and most cost-effective alternative.

7. Idaho Retail Revenue Adjustment. The Idaho Retail Revenue Adjustment is a load change adjustment that removes the average energy-related cost of Production from PCA calculations when load grows, as it has done in this case. When load declines the adjustment adds back the average energy-related cost of production at the currently approved rate. The rate changed from \$27.85/MWh to \$26.63 on April 1, 2013¹. This rate is reestablished whenever base power supply costs are reset. The rate is multiplied by the change in load to produce the adjustment, excluding Clearwater Paper generation.

Ninety percent of the total Idaho Retail Revenue Adjustment is included in the PCA. In the review period, the Company experienced an increase in load and therefore there is a negative adjustment. The negative amount represents a benefit to customers.

8. Net Transmission Revenue and Expense. The Company proposed, and the Commission Staff agreed, to include transmission revenues and expenses in the PCA in the 2009 general rate case, AVU-E-09-01. Avista incurs third party transmission costs when it purchases power and has it wheeled or delivered to its service area by a third party. Avista also incurs third party transmission costs when it sells power and pays a third party to deliver it. Third party transmission revenues occur when Avista is the third party and is delivering power for others. Including transmission revenues and expenses in the PCA tracks the variability of these items. In the review period, the difference in transmission expenses was less than the difference in transmission revenue, and the net of the transmission revenue and expense differences is a benefit to customers.

9. Interest during Deferral Period. The Company calculates interest on the deferral balance using the methodology stated in Order No. 29323, Case No. AVU-E-03-04. Staff reviewed the

¹ Case No. AVU-E-11-01, Order No. 32371 adopted a Stipulation where Attachment B identifies the Idaho Retail Revenue Adjustment rate of \$27.85. Case No. AVU-E-12-08, Order No. 32769 adopted another Stipulation where Attachment B identifies the Idaho Retail Revenue Adjustment rate of \$26.63.

Company's interest calculation and found the amounts included in the filing to be correct. The Company uses the Customer Deposit Rate to calculate interest on current year deferrals and on carryover balances from one year to the next. The Customer Deposit Rate for 2011 and for 2012 is 1%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate. In the review period, the interest is a benefit to customers.

Other Booked Amounts

This PCA includes two other booked amounts. An unrecovered deferred State Income Tax (DSIT) customer refund amount of \$484,663 transferred into the PCA per Commission Order No. 32070, Case No. AVU-E-10-01. The second is a customer surcharge amount of \$116,773 that is the under-recovered amount associated with the PCA rate implemented by the Commission in Case No. AVU-E-11-03 in 2011. This is the true-up from that case. Staff has reviewed these booked amounts and determined the two booked amounts to be correct.

The PCA Rate

The PCA rate is calculated from three categories of revenue and expense. The first category is amounts booked through June 30, 2013, the end of the deferral period. The second category consists of amounts expected to be booked after June 30, 2013 from PCA rates and interest rates currently in place. The third category is Revenue Conversion amounts. The revenue conversion factor captures the amount of increased or decreased commission fees and uncollectibles that result from the collection or refund of the deferral balance as these items fluctuate with revenue.

Booked Amounts

-3,897,489	Deferral with Interest
-484,663	DSIT Transfer of Unrecovered Balance
-1,024,834	Unamortized Balance – 2012 PCA
<u>116,773</u>	True-Up Amount – 2011 PCA
-5,290,213	Booked Total

Expected to be booked Amounts (Trued-Up)

-10,899	Deferral Interest
765,927	Amortization including Interest
<u>-22,676</u>	Interest During Amortization
732,352	Expected Total

Revenue Conversion Amount		
-22,858	Commission Fees and Uncollectibles	
Total		
-4,580,719	Total for Rate Design	
Rate Calculation		
-4,580,719	Rate Design Total	
<u>3,021,657</u>	Expected Sales (MWh)	
-0.00152	PCA Rate (\$/kWh)	

The Staff has reviewed these amounts and believes that they are reasonable. Estimated amounts are included in the rate calculation to minimize next year's true-up. The estimated amounts are trued-up in the next PCA filing.

CUSTOMER RELATIONS

The Company's press release and customer notice included in the Application met the requirements of IPUC Rules of Procedure 125.04 and 125.05. IDAPA 31.01.01.125. The customer notice was mailed with cyclical billings beginning August 8, 2013 and ending September 7, 2013.

Avista filed this annual PCA case on July 31, 2013. Its press release and customer notices covered three separate cases: the PCA (AVU-E-13-04), the PGA for natural gas (AVU-G-13-01), and the electric Energy Efficiency Tariff Rider Adjustment (AVU-E-13-05). The PCA, as mentioned earlier in Staff's Comments, results in an average rate decrease of 0.83%. Also mentioned in both the press release and customer notice is that a decrease in the credit Avista receives from the Bonneville Power Administration's Residential Exchange Program will be lower than the current level of benefits and as a result will cause a slight increase (less than 1%) to customers' bills. In addition, the 1.9% rate increase approved by the Commission in the last general rate case and effective October 1, 2013 is mentioned. The overall electric increase to residential customer bills, if all the adjustments are approved, will be 4.2%.

Customers had until September 11, 2013 to file comments. As of September 10th, 2 customers had filed comments, both opposing any increase in rates.

Although the PCA itself results in a rate decrease, the combined impact of all proposed adjustments,² if approved, will be a net increase in electric rates. For that reason, Staff encourages

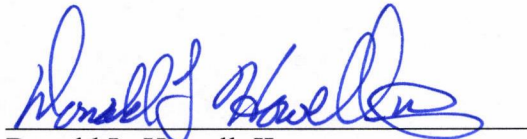
² The Company proposed to increase the Energy Efficiency Rider (Sch. 91) and explained that the credit from BPA's Residential Exchange Program was reduced by BPA. This latter adjustment is not subject to the Company's control and is a flow-thru credit from BPA.

the Commission to remind all customers who are struggling to pay utility bills that there is financial assistance available to qualified customers as well as the possibility of making payment arrangements. Information regarding the federally-funded Low Income Energy Assistance Program (LIHEAP) and local non-profit and other fuel funds such as Project Share in Avista's northern Idaho service territory can be obtained by calling the nearest Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

STAFF RECOMMENDATION

Staff recommends that the Commission accept the audited deferral balance with interest of (\$3,897,489) for the period July 1, 2012 through June 30, 2013. The Staff also recommends that the Commission implement a PCA rate credit of 0.152 ¢/kWh effective October 1, 2013 as proposed by Avista.

Respectfully submitted this 11th day of September 2013.



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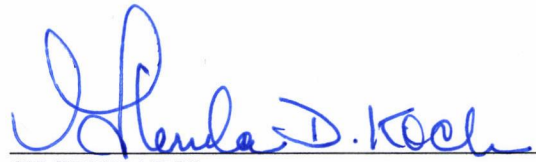
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 11TH DAY OF SEPTEMBER 2013, SERVED THE FOREGOING **STAFF COMMENTS**, IN CASE NO. AVU-E-13-04, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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